



Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

Subcommittee on Oversight and Investigations
Increasing the Effectiveness of State Consumer Protections
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Insurance is the glue that holds our economy together. But the glue only sticks if state insurance regulators ensure that promises are fulfilled. When a bad actor makes misleading sales promises or fails to pay valid claims, both the consumer and other insurers are hurt by the unfair competition. The linchpin of the insurance marketplace is trust, and our economy cannot function without it.

State market conduct regulation strengthens the reliability of this trust. The NAIC developed its first handbook for market conduct exams and did its first detailed study of the issue in the early 1970s. The states are now performing well over a thousand market conduct examinations annually, with between 1,000 and 2,000 analysts and examiners keeping the system honest.

Unfortunately, as noted in the GAO testimony, the way that states approach market conduct oversight varies widely, and few states have established formal market analysis programs to review companies' behavior and identify problem patterns to better target reviews. Furthermore, as noted in the NCOIL study, most state market conduct exams have been conducted without clear-cut standards for compliance. This has resulted in a system lacking both strategic design and uniformity, with the rules of the game too uncertain, and limited state resources wasted on inefficient and often duplicative regulation.

Consumers suffer a "double whammy" getting hurt twice by this inefficient system – once by absorbing the increased system costs from unnecessary regulation in the form of higher prices, and again from breaches of trust where states have insufficient oversight due to the failure to properly target resources. Too often we have witnessed the "gotcha game," where state insurance commissioners initiate duplicative and costly oversight exams and negotiate administrative fines for subjective wrongdoing that makes good PR, but bad public policy. Consumers deserve better.

It is imperative that we rethink the fundamental goals of market conduct – to fulfill consumer trust – and design and implement a comprehensive, uniform approach with standards that are clear, objective, and properly enforced. We need agreement on which consumer protections are most important, and then we need to develop uniform standards with best practice guidelines that companies can understand and implement. The states then need to implement oversight of these standards in a uniform and objective manner, so that companies and consumers know what to expect, and states can rely on the adequacy of each other's exams.

My home state of Ohio is at the vanguard of efforts to improve market conduct oversight and is one of the first states to develop a program that uses computer technology to analyze millions of pieces of already reported information to determine where specific anomalies exist and target resources accordingly. No state can afford to examine every insurer and agent on an ongoing basis, nor would such additional regulatory costs be efficient for consumers. But by using sophisticated data analysis, combined with appropriate best practices oversight of insurers' internal controls, states can coordinate and redeploy resources so that each is adding value to consumers in the most effective and cost-efficient manner.

I asked the GAO to conduct a review of state market conduct efforts to help underscore the importance of coordinating a more uniform, targeted approach to consumer protection. Based on our ongoing discussions with the GAO, NCOIL, the NAIC, IMSA, and others, I believe that we're reaching agreement on the fundamental nature of the problem and are nearing agreement on a framework to fix it.

Development of principles and guidelines by the NAIC or a model law by NCOIL is not enough, however. Many noble reforms have been later ignored and left on the dust heap of failed insurance reforms. Subcommittee Chairwoman Sue Kelly called this hearing today to underscore the importance of following through on these initial state efforts and our Committee's commitment to ensuring their uniform implementation by the states. We will be discussing a number of short-term legislative proposals to fix the state system later this year, and hope that the states can act quickly and effectively in this case to protect consumers on their own before Congress needs to step in and provide additional impetus.

I would like to thank the Chairwoman for her leadership efforts and the witnesses for appearing before us today.

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